Director's Report

2015

JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

2015 Session: JLARC Studies

The Commission's research agenda is set primarily by the General Assembly, with most studies being mandated by a study resolution. In the 2015 session, 20 study resolutions were introduced. Four studies passed both the House of Delegates and the Senate through seven study resolutions and will be conducted over the next two years.

House Joint Resolution 557 (O'Bannon) and Senate Joint Resolution 243 (Dance) direct JLARC to review the Department of Veterans Services. The study is to include a review of the department's programs and other issues related to the provision of services to veterans.

House Joint Resolution 623 (Hodges) and Senate Joint Resolution 272 (Norment) direct JLARC to study Virginia's water resource planning and management. The study is to assess whether the rate of ground water and surface water consumption is sustainable, the effectiveness of the permitting process for water withdrawals, and the effectiveness of state and local water resource planning.

House Joint Resolution 637 (Landes) and Senate Joint Resolution 268 (Hanger) direct JLARC to study Virginia's Medicaid program. The study is to include a review of the eligibility determination process and an assessment of whether the appropriate services are being provided in a cost-effective manner.

Senate Joint Resolution 274 (Wagner) directs JLARC to update its 2006 study on the impact of regulations on Virginia's manufacturing sector.

Commission Approved Studies

Along with the studies approved by the General Assembly during the 2015 session, the Joint Legislative Audit and Review Commission approved three studies to be conducted by staff over the next two years.

The Commission approved a resolution directing JLARC staff to study the Department of Motor Vehicles. The study will include a review of how efficiently and effectively DMV performs its responsibilities and an assessment of how well the agency's infrastructure, staffing, IT, and policies facilitate efficiency and effectiveness.

The Commission also approved a resolution directing JLARC staff to study state contracting. The review will include an assessment of whether procurement policies and practices enable the state to maximize the value of contracts and adequately limit the state's exposure to risk.

The Commission also directed JLARC staff to study Medicaid-funded non-emergency transportation services. The review will include an assessment of the oversight and performance of the third-party provider under the contract.

JLARC Study Impacts

Impact: Workforce Development Programs

House Joint Resolution 688 (Byron) of the 2013 General Assembly directed JLARC to examine the transparency of information on program expenditures and outcomes, and an amendment to the 2014 Appropriation Act requested an assessment of how effectively Virginia's workforce development programs meet the needs of employers. In fiscal year 2013, Virginia's workforce development programs received at least $341 million in state, federal, and local funding. Workforce development programs help individuals enter and advance in the workplace through job placement assistance and training and education, and they assist employers with recruitment and training. Federal laws govern most workforce programs, which are administered by nine state agencies and overseen by the Virginia Board of Workforce Development. Services are provided locally by a variety of agencies.

JLARC found that workforce development programs do not meet the expectations of many employers with respect to producing the workforce they need and providing services they value. Employers report difficulty finding applicants who possess relevant work experience and job-specific skills as well as the basic skills needed to succeed in the workplace. Difficulty with filling job openings may occur partly because career and technical education courses, particularly those in high schools, are not consistently offered in fields with the greatest employment potential. The report includes recommendations to improve the relevancy of CTE program offerings in school divisions, to measure whether new CTE courses proposed by school divisions are aligned with labor market demand, and to annually evaluate how well workforce development programs emphasize training and education opportunities that align with the needs of employers.

CTE courses may not be consistently aligned with labor market demand because employer input and labor market data are not effectively incorporated into the design of education and training programs. Although workforce development programs have increased efforts to engage em-

ployers, these efforts are largely ad hoc and inconsistent across the state. Efforts to coordinate workforce development activities are also inconsistent across localities, and in some cases, key workforce development entities are not sufficiently included in local strategic planning and service delivery. The report includes a recommendation for the creation of a single entity in each workforce region to lead workforce development efforts, including the development of a local plan for employer engagement and the formation of a region-wide workforce development council.

Strong state-level governance and oversight are needed to achieve the state's vision for a coordinated and efficient system of workforce development programs and agencies. JLARC found that the Virginia Board of Workforce Development does not have sufficient statutory authority over the state agencies that administer workforce development programs to create a workforce development system in which all relevant agencies and programs operate according to a shared mission and priorities. Further, the board does not appear to have sufficient representation from key state agencies and local entities or sufficient capacity to carry out all of its responsibilities. Recommendations include enhancing the authority of the board to influence the workforce development policies of state agencies, adding representatives from key industries to the board membership, and authorizing the board to hire independent staff.

The report also found that spending definitions and calculations were not standardized within and across workforce development programs. As a result, the Board of Workforce Development cannot compare spending patterns across programs and evaluate whether they are funded appropriately. The measures used to assess program performance do not reflect state workforce development priorities, such as employer satisfaction with the workforce or the programs, and the measures vary by program, preventing an assessment of the workforce development system as a whole. The report includes a recommendation for the Board of Workforce Development to establish standard performance measures for all workforce development programs and to ensure that all measures support the state's highest workforce development priorities.

►*Action by the 2015 General Assembly*

The General Assembly passed HB 1986 (Byron) and SB 1372 (Ruff), which addressed several of the report's recommendations by directing the Board of Workforce Development to "evaluate the extent to which the state's workforce development programs emphasize education and training opportunities that align with employers' workforce needs and labor market statistics"; add to its membership representatives of the information technology and science, technology, engineering, and math fields, as well as "other industry sectors that represent the Commonwealth's economic development priorities"; and hire an executive director to support its operations and outcomes. All workforce development agencies are now required to report on state-level performance measures established, in part, by the Board of Workforce Development.

The bills create "regional conveners" to lead a region's workforce development efforts by "coordinating business, economic development, labor, regional planning commissions, education at all levels, and human services organizations to focus on community workforce issues and the development of solutions to current and prospective business needs for a skilled labor force at the regional level." Regional conveners are tasked with developing a local plan for employer engagement. As a condition of receiving funds, each local workforce development board is required to either be designated as the regional convener or to enter into a memorandum of agreement with another entity that will serve in that role.

Item 213 K (Norment and Greason) of the 2015 Appropriation Act directs the Virginia Community College System to develop a plan to expand the number of workforce development credentials and certifications "to a level needed to meet the demands of Virginia's workforce."

Impact: Line of Duty Act

House Joint Resolution 103 (Jones) of the 2014 General Assembly directed JLARC to study the costs, structure, and administration of Virginia's Line of Duty Act (LODA) and to identify recommendations to improve the program's design and implementation. The LODA program provides a lump sum death benefit and lifetime health insurance benefits to the families of public safety officers who were killed or permanently disabled in the line of duty. The state and localities paid a combined $12.2 million in LODA benefits to 952 beneficiaries in FY 2013.

The Department of Accounts (DOA) determines eligibility for the program and administers benefits for state agencies and localities that opted to participate in the LODA Fund, which was established to fund benefits. Other localities administer their own benefits. The state and localities are responsible for the cost of benefits for their employees and volunteers.

JLARC staff found that the administration of the LODA program was not aligned with DOA's primary mission. Because the scope of the program has expanded, DOA has had to assess whether disabilities are likely to be permanent and determine the comparability of health insurance coverage. The report includes a recommendation to transfer the administration of the LODA program from DOA to the Virginia Retirement System for eligibility determinations, and to the Department of Human Resource Management for ongoing health insurance benefits. Another recommendation calls for employers to be granted the right to appeal eligibility decisions. Appeal is currently available only to public safety officers and their families.

The report identifies a variety of options to lower program spending without reducing benefits or changing eligibility criteria. Opportunities exist to reduce the cost of health insurance provided through the program because some LODA beneficiaries are not currently enrolled in the most cost-efficient health plans. For example, LODA beneficiaries could be granted access to the state and local health insurance plans, or they could be enrolled in a health insurance plan formed specifically for them.

JLARC staff found that Virginia has more broadly defined eligibility criteria than the other seven states that offer benefits similar to the LODA program. The LODA program makes no distinction regarding the severity of disabilities, and the same benefits are awarded whether or not a death or disability occurred while performing public safety activities, such as making arrests or responding to emergencies.

The report also identifies options that could reduce costs by narrowing the program's eligibility criteria. Unlike similar programs in Virginia and other states, the LODA program allows beneficiaries to receive benefits regardless of need. To reduce costs while preserving benefits for those with the greatest need, benefits could be reduced or eliminated for public safety officers whose incomes exceed a certain threshold and for those who have access to affordable health insurance.

►*Action by the 2015 General Assembly*

The General Assembly passed HB 2204 (Jones), which transfers the administration of the LODA program to the Virginia Retirement System and the Department of Human Resource Management, subject to reenactment by the 2016 General Assembly. If reenacted, the bill would also grant employers the right to appeal eligibility decisions. During the interim, the bill's patron (Jones) will meet with a workgroup of program stakeholders to discuss all options and recommendations contained in the report and to inform further legislative action in 2016.

Impact: Cost of Higher Education

House Joint Resolution 108 (Landes) of the 2012 General Assembly directed JLARC to study the factors that affect the cost of operations at Virginia's public colleges and universities and to identify opportunities to reduce the cost of public higher education. The mandate cited increases in tuition and state higher education spending as well as concerns about affordability and student loan debt levels. Because of the breadth of higher education, JLARC responded to HJR 108 with a series of five reports, four of which included options or recommendations.

Non-Academic Services and Costs

Higher education institutions typically use auxiliary enterprises to manage the non-academic services they provide. Institutions use auxiliary enterprises for a wide range of services, but most commonly for intercollegiate athletics, campus recreation, student housing, and student dining. Unlike academic services, non-academic services receive no general funds, so student fees are the primary funding source for most auxiliary enterprises.

The report found that students pay fees to fund the majority of Virginia's intercollegiate athletic program costs. Mandatory athletic-related fees averaged $1,185 per student across Virginia's 15 institutions. Institutions did not consistently calculate or publicize these fees. The report recommended a working group to create a standard way to calculate and publish mandatory, non-academic fees, including for intercollegiate athletics. The report also recommended greater transparency of mandatory fees by requiring the amount of athletic fees (or athletic-related portion of mandatory fees) to be listed on the tuition and fees information page of each institution's website.

To support recreation and fitness enterprises, students paid fees ranging from $36 to $488 (average $281), or 2.8 percent of total tuition and fees for in-state students. Although recreation fees are not a significant driver of the cost of higher education, there are opportunities to reduce them at certain institutions. The report recommended assessing the feasibility and impact of raising additional revenue through campus recreation and fitness enterprises to reduce reliance on student fees.

►*Action by the 2015 General Assembly*

The General Assembly addressed all three of this report's recommendations in § 4-9.04 of the 2015 Appropriation Act, by directing boards of visitors to "require their institutions to clearly list the amount of the athletic fee on their website's tuition and fees information page" and requiring the State Council of Higher Education for Virginia (SCHEV) to "convene a working group … to create a standard way of calculating and publishing mandatory non-E&G fees, including for intercollegiate athletics." The same item directs boards of visitors to "assess the feasibility and impact of raising additional revenue through campus recreation and fitness enterprises to reduce reliance on mandatory student fees."

Academic Spending and Workload

The largest single instructional expenditure for higher education institutions is faculty salaries and benefits. Between FY 2005 and FY 2012, spending on faculty compensation increased by 17 percent. This increase was largely driven by increases in the number of faculty needed to accommodate student enrollment growth rather than by rising salaries. Virginia's faculty tend to be paid about the same or less than their counterparts nationwide.

The report found that instructional technology can reduce instructional costs, but only in certain circumstances. Virginia's institutions do not use instructional technology as much as schools in other states do. Because of the technology's potential and because it is still an emerging area, JLARC recommended that SCHEV facilitate regular collaboration about instructional technology among higher education institutions.

With regard to instructional and research space, JLARC found that SCHEV's facility utilization guidelines were outdated, did not reflect current use, and overestimated the space needed. JLARC recommended that SCHEV update its space utilization guidelines to help prioritize the billions in current institutional requests for state-supported capital projects.

►*Action by the 2015 General Assembly*

The General Assembly addressed two of this report's recommendations in § 4-9.04 (Massie) of the 2015 Appropriation Act, by directing SCHEV to coordinate a committee "to identify instructional technology initiatives and best practices for directly or indirectly lowering institutions' instructional expenditures per student while maintaining or enhancing student learning." The provision directs SCHEV to convene a working group "to develop instructional and research space guidelines that adequately measure current use of space and plans for future use of space at Virginia's public higher education institutions."

Support Costs and Staffing

Though instruction and research are their primary mission, higher education institutions also provide many additional services that support students and faculty. Spending on support functions, such as operations and maintenance and student services, has accounted for 17 percent of institutional spending growth. Most Virginia institutions, though, spend less on support functions than comparable schools nationwide.

The report found that many of Virginia's institutions may employ too many supervisors in certain support functions. About one-fourth of all supervisors managed only one employee. These narrow "spans of control" reflect unnecessary layers of management that slow decision making and increase costs. Several institutions outside Virginia have widened their spans of control and reported reducing their costs by 0.5 to one percent annually. The report recommended a comprehensive review of organizational structures, periodic reporting on spans of control and number of supervisors, and revision of human resource policies to eliminate unnecessary supervisory positions.

Procurement is another major component of support function spending. All Virginia institutions use institution-wide contracts that allow for better pricing by aggregating the buying power of the individual institution to one or a few vendors. Many Virginia institutions, though, do not strictly enforce the use of these contracts, allowing "off contract" purchases, which may drive up spending. Because they are also not effectively limiting the variety of goods available for purchase, institutions may be missing opportunities for favorable pricing and economies of scale. The report recommended that institutions set and enforce policies to maximize standardization of purchases, including the use of institution-wide contracts. The report also recommended annual reporting on all exceptions to purchasing standardization.

►*Action by the 2015 General Assembly*

The General Assembly addressed all three of this report's recommendations related to supervisors in § 4-9.04 (Massie) of the 2015 Appropriation Act, by directing each board of visitors to order "a comprehensive review of the institution's organizational structure, including an analysis of spans of control and a review of staff activities and workload." The item directs boards to "require periodic reports on average and median spans of control and the number of supervisors with six or fewer direct reports" and "direct staff to revise human resource policies to eliminate unnecessary supervisory positions by developing standards that establish and promote broader spans of control."

The same item also addresses two of this report's recommendations related to procurement by directing boards to "set and enforce policies to maximize standardization of purchases of commonly procured goods, including use of institution-wide contracts," and "consider directing institution staff to provide an annual report on all institutional purchases, including small purchases, that are exceptions to the institutional policies for standardizing purchases."

Addressing the Cost of Public Higher Education

JLARC's higher education series under HJR 108 (2012) culminated with a report concluding that Virginia's 15 public four-year higher education institutions collectively achieve their missions—to educate and graduate students—better than most. The state's public institutions are also among the nation's most expensive for students. This comparatively high net cost of attendance is attributable to institutions spending more while state funding declined.

Auxiliary enterprises accounted for 56 percent of the total increase in inflation-adjusted, per student spending. Mandatory non-academic fees used to fund auxiliary services also increased substantially and now represent one-third ($3,502) of total tuition and fees. One of the primary drivers of this fee growth has been student fees used to subsidize intercollegiate athletics. The funding provided by students to subsidize athletics equated to, on average, 12 percent of total tuition and mandatory fees. These athletic fees are not directly related to an institution's core academic mission, and in many cases the athletic programs benefit a relatively small number of students, yet they are mandatory for all students. The report recommended imposing a statutory limit on mandatory athletic fees and directing institutions with fees above this limit to develop plans to reduce athletic fees by 2020.

Institutions have spent substantially to expand and improve their campus facilities, despite declines in state general funds and in student ability to afford higher education. On average, square footage per student increased 14 percent between 2004 and 2011. Institutions borrowed more to build and renovate non-academic facilities, nearly quadrupling their annual debt service. The state also borrowed more for academic facilities, with state debt service payments now accounting for nearly one-third of all state support for higher education. This borrowing has created long-term, fixed costs that—particularly for institutions with stagnating or declining enrollment and lower ability to generate additional fee revenue—will be a substantial budgetary constraint moving forward. The report recommended requiring the Six-Year Capital Outlay Plan Advisory Committee, the Department of Planning and Budget, and others to use SCHEV's analysis to help prioritize among the many requests for more construction and renovation totaling billions of dollars.

Amid substantial capital spending, existing facilities were deteriorating. Maintenance backlogs totaled at least $1.4 billion, or about one-fifth the total value of institutional facilities. The report recommended that the Department of Planning and Budget revise its formula to allocate maintenance reserve funding based on facility condition, age, and use.

Finally, despite being vested with primary responsibility to manage the state's institutions of higher education, about half of current board members responding to a JLARC survey reported they have a limited ability to influence decisions about institutional efficiency or non-academic spending. Nearly one-third reported that they understand higher education operations or public finance only "somewhat," "slightly," or "not at all." The report recommended requiring additional training for boards of visitors members on finance and facilities subcommittees.

►*Action by the 2015 General Assembly*

The General Assembly passed HB 1897 (Cox), which amends § 23-1.2 to limit how much in student fees can subsidize intercollegiate athletics program revenue. The limits range from 20 to 92 percent depending on the institution's intercollegiate athletics division. The bill requires that institutions above this limit submit a five-year compliance plan to the Governor and General Assembly. The bill also creates an Intercollegiate Athletics Review Commission to which institutions must submit financing plans when adding new athletic programs or changing divisions.

The General Assembly also addressed two of this report's recommendations related to facilities. § 4-9.04 (Massie) of the 2015 Appropriation Act directs that the "Six-Year Capital Outlay Plan Advisory Committee, the Department of Planning and Budget, and others as appropriate shall use the results of the prioritization process established by the State Council of Higher Education for Virginia in determining which capital projects should receive funding." The item addresses a recommendation related to maintenance funding by directing the Department of Planning and Budget to "revise the formula used to make allocation recommendations for the state's maintenance reserve funding to account for higher maintenance needs resulting from poor facility condition, aging of facilities, and differences in facility use."

The same item directs SCHEV to "train boards of visitors members on the types of information members should request from institutions to inform decision making, such as performance measures, benchmarking data, the impact of financial decisions on student costs, and past and projected cost trends."

Impact: Information Technology Governance

JLARC reviewed Virginia's governance structure for information technology in 2014. The review was conducted under JLARC's authority to conduct ongoing oversight of the Virginia Information Technologies Agency (VITA).

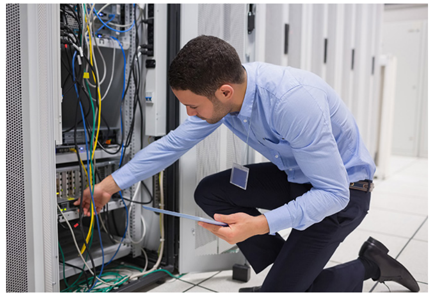
The report found that the responsibilities of the Secretary of Technology and the Chief Information Officer (CIO) overlap and need to be more clearly defined. The secretary's responsibilities for communicating state government technology needs from the CIO to the governor's office and cabinet should also be more clearly established. Further, the CIO's effectiveness is limited by the lack of a deputy to assist in managing the services VITA provides to agencies. The report included six recommendations aimed at clarifying the roles of the secretary and CIO.

The report identified concerns with VITA's statutory responsibilities and those of state agencies. Current statute does not clearly define VITA's main responsibilities, which may affect VITA's ability to carry out its mission. Agencies often have not complied with the IT security requirements that are set by VITA, which suggests these requirements should be reinforced in statute. All statutes governing IT procurements, which are overseen by VITA, include a potential loophole that may limit the state's ability to ensure that agencies comply with procurement laws and regulations. The report included six recommendations that would clarify and strengthen IT statutes.

The report also addressed agency involvement in central IT decisions, which is limited even though agencies have a substantial stake in the outcome of these decisions. The report recommended that Virginia develop a governance approach that better incorporates agencies. One especially critical decision that should involve agencies is how central services should be provided after the expiration of the Northrop Grumman contract.

►*Action by the 2015 General Assembly*

The General Assembly passed two bills implementing the reforms recommended in the IT governance report. HB 2323 (Jones) eliminated those responsibilities of the Secretary of Technology that overlapped



with the CIO's responsibilities and codified the secretary's duty to communicate state IT issues to executive leadership. Additionally, the bill reinforced the duty of agency directors to comply with IT security requirements and closed the loophole related to agency compliance with IT procurement laws and regulations. SB 1121 (Barker) reinforced the duty of agency directors to comply with IT security requirements.

The General Assembly implemented several additional recommendations through the 2015 Appropriation Act. Item 6 E (Greason) creates a technical working group of executive and legislative branch stakeholders. The group is tasked with developing legislation that reorganizes, clarifies, and codifies, but does not substantively amend, VITA's responsibilities. The group is to present proposed legislation to JLARC no later than November 1, 2015. Item 424 (Greason) directs the Information Technology Advisory Council to develop a proposal for including agencies in central IT decisions. Item 420 requires the council to develop a proposal for involving agencies in planning for the expiration of the Northrop Grumman contract. Both of the council's proposals are to be presented in 2015. In addition, Item 424 gives the CIO control of a major technology contract that was previously managed without VITA oversight.

Impact: Local Government Consolidation Incentives

Item 139 of the 2013 Appropriation Act directed JLARC to analyze and make recommendations regarding the most effective balance between the costs of incentives for government and school consolidations with the expected resulting savings and operational benefits. The state has provided incentive funding for three local government consolidations, most recently when the City of Bedford reverted to a town and consolidated with Bedford County. Localities that consolidate have received incentive funding through the direct aid to K-12 education formula, and maintained their combined levels of funding for other state aid, including funding for law enforcement and constitutional officers.

The JLARC report found that while additional state funds were not among the reasons cited for consolidation, these funds did help facilitate agreements and equitable terms between the localities. All three consolidations have had only minimal impact on local K-12 educational services because each of the three cities and counties had already jointly operated their school divisions before consolidation. There have been improvements reported for some other types of services such as water and sewer. Over 30 years, the state will realize about $1.6 million in savings from the Clifton Forge and Alleghany County consolidation. In contrast, the Bedford County consolidation could cost the state nearly $80 million over 30 years.

Neither the purpose of providing additional funds for consolidation nor the process by which interested localities approach the state were clearly defined. The report recommended setting forth the state's goal to provide special funding to facilitate amicable consolidations that improve local fiscal sustainability and, when possible, realize state or local savings and local service improvements. The report also recommended directing the Commission on Local Government to prepare and submit proposals through the governor's budget, as necessary, for additional state funding for localities that consolidate based on the cost of each specific consolidation as it is proposed.

Virginia's approach to providing additional funds for consolidation has been arbitrary and potentially high cost. The approach to determining how much additional funding the state provides had minimal analytical basis and did not correspond to the actual cost of consolidation. The approach provides funding for an arbitrary period of time with little relationship to the complexity of the consolidation. Under the state's approach, there were four potential consolidations in which state funding for K-12 could increase by at least $32 million annually. There were another six that could each result in between $5 million and $10 million annually. The report recommended removing references to additional state funding for consolidation based on the local composite index for future consolidations. The report also recommended directing the Commission on Local Government to develop a new process to determine the amount and duration of additional state funds, to be based primarily on the projected cost and complexity, for local consolidation.

►*Action by the 2015 General Assembly*

The General Assembly addressed several of the report's recommendations through the 2015 Appropriation Act. Item 107 sets forth the state's goal to "encourage amicable consolidations that improve local fiscal sustainability and, when possible, realize state or local savings and local service improvements." The same item directed the Commission on Local Government, by December 2015, to "develop a process to determine an appropriate calculation for additional state funds for future local consolidations. The amount of additional funding for local consolidation should be based primarily on the projected cost of consolidation. The length of time additional funding is provided should be based primarily on the complexity and length of time necessary for the consolidation."

Item 136 4.c.1 eliminates references to additional state funding for future consolidations based on the local composite index, pending additional analysis. The item indicates "notwithstanding the funding provisions in § 22.1-25 D, Code of Virginia, additional state funding for future consolidations shall be as set forth in future Appropriation Acts."

Impact: Low Performing Schools

Item 31 of the 2013 Appropriation Act directed JLARC to study options for restructuring the lowest performing schools or districts. The study was requested amid attempts to address the longstanding challenge of improving student achievement in schools educating children in the state's high-poverty urban localities. The state and school divisions have been attempting to improve student achievement through a variety of methods for many years.

The JLARC report found that most of Virginia's schools subject to school improvement efforts still continue to be low performing. Even low performing schools, though, have some teachers with the ability and commitment to work in a challenging urban high poverty environment over the long term. The difficulty is attracting and retaining a sufficient number of these teachers.

Urban teacher residency programs have the potential to create a dedicated, ongoing pipeline of new teachers with the skills to support student achievement over the long term. Nationwide, there are 17 teacher residency programs. The research literature examining the impact of teacher residency programs on student achievement is limited, but so far individual teacher residency programs report positive results. Virginia currently has one teacher residency program, which is a partnership between the Richmond school division and Virginia Commonwealth University. The JLARC report recommended providing grants to higher education institutions and local school divisions to partner on developing teacher residency programs near Petersburg and Norfolk.

►*Action by the 2015 General Assembly*

Through Item 135 W of the 2015 Appropriation Act (Norment), the General Assembly addressed teacher residency programs by providing $500,000 in grants for FY 2016 for two teacher residency partnerships between university programs and the Petersburg and Norfolk school divisions. The grants are to help improve new teacher training and retention for hard-to-staff schools. The grants will support a model residency program, including possible stipends to attract qualified program participants and mentors.

Impact: Year-Round Schools

HJR 646 (Landes) from the 2011 General Assembly directed JLARC to study the efficacy of year-round schools. The report, which was published and briefed in October 2012, found that the Standards of Learning (SOL) test scores of the general student population were similar at year-round schools and traditional calendar schools, which suggested that a year-round calendar does not necessarily improve test scores of all students. However, certain student groups, in particular black students, were more likely to improve their SOL test scores at a faster rate at year-round schools. For example, 74 percent of black students at year-round schools improved their English SOL test scores faster than their peers at traditional calendar schools. Black students at year-round schools were also more likely to score higher than predicted on 2009 SOL tests.

The report concluded that school divisions with high percentages of student groups that benefit from year-round schools—black, Hispanic, and economically disadvantaged students and students with limited English proficiency—may want to consider using year-round calendars. The report noted the importance of effective planning when transitioning to year-round schools and that year-round schools cost, on average, about three percent more annually.

►*Action by the 2015 General Assembly*

The General Assembly increased funding and support for year-round schools through the 2015 Appropriation Act, building on increases provided in the 2014 Act. Item 135 R increased the FY 2016 funding available for start-up grants for extended school-year models (the focus being year-round schools) by $4.7 million to a total of $7.1 million. Start-up grants of up to $300,000 per school may be awarded for a period of up to two years after the initial implementation year. After the third consecutive year, grant amounts are based on the state and local cost share as determined by the local composite index. (School divisions are required to provide a 20 percent local match to the grant in the second year, with the exception of divisions with schools that are in Denied Accreditation status.) Divisions that receive grant funds must submit annual reports on the status and success of extended-year programs to the Department of Education, which in turn must report annually on the status and success of participating school divisions to the House Appropriation and Senate Finance Committees.

Impact: Effectiveness of Virginia Tax Preferences

Senate Joint Resolution 21 (Howell) of the 2010 General Assembly directed JLARC to study the effectiveness of Virginia tax preferences available through the corporate income tax, individual income tax, and retail sales and use tax systems. Specifically, JLARC was directed to determine whether Virginia tax preferences meet their intended public policy goals. Tax preferences are provisions in the tax code that decrease the tax liability of eligible taxpayers.

Because tax preferences are not subject to Virginia's budgetary process, they often remain in effect, sometimes indefinitely, without any evaluation of their effectiveness. Virginia currently offers nearly 200 tax preferences in the form of credits, deductions, subtractions, and exemptions. Tax preferences collectively reduced taxpayers' liability by approximately $12.5 billion in tax year 2008, which was equivalent to nearly 90 percent of the state revenue collected from the corporate income tax, individual income tax, and retail sales and use tax systems. Of that amount, the tax preferences aimed at achieving public policy goals, such as providing financial incentives or encouraging particular activities, accounted for about $2.9 billion in reduced tax liability.

The study found that tax preferences that provide financial assistance generally deliver benefits, but some could be better targeted to their intended beneficiaries. For example, sales tax holidays may not effectively reach lower-income consumers. Most preferences that promote environmental and historical preservation appear to achieve their intended goals, but concerns have been raised over their efficiency. For example, although the increase in land preservation over time suggests that the Land Preservation Tax Credit has achieved its public policy goal, the credit is difficult to administer and enforce, and it cannot be targeted toward land with the greatest conservation value. The study also found that an income tax subtraction offered to encourage land preservation had limited impact.

Preferences to promote economic activity vary widely in effectiveness. The largest of these preferences, Virginia's coal income tax credits, may not be effectively promoting coal production and employment because changes in coal mining activity appear unaffected by the credits. Preferences to encourage charitable activities do not appear to have an appreciable effect.

The primary recommendation of this study was that a joint legislative subcommittee be created, comprising members of the House Finance, House Appropriations, and Senate Finance committees, to oversee the ongoing evaluations of tax preferences. This recommendation was implemented by the 2012 General Assembly.

►*Action by the 2015 General Assembly*

The report has stimulated a lot of interest in tax preferences and has been heavily relied upon in legislative debate. The General Assembly passed companion bills HB 1828 (Ware) and SB 1019 (Watkins), which limit the fiscal impact of the Land Preservation Tax Credit by (i) reducing the cap on the total amount that can be claimed annually from $100 million to $75 million, and (ii) placing a limit on the amount that may be claimed by each taxpayer annually ($20,000 limit for 2015 and 2016; $50,000 limit 2017 and after). The General Assembly also passed SB 1012 (Watkins), which eliminates the income tax subtraction available for the gain derived from the sale of land for open-space use beginning January 1, 2015.

SB 1319 (Kilgore) combines the three existing sales tax holidays (school supplies and clothing, energy-efficient products, and hurricane preparedness products) into a single, three-day sales tax holiday in August.

HB 1879 (Kilgore) and SB 1161 (Colgan) would have placed an annual limit of $7.5 million on the amount that electricity generators can claim through the Virginia Coal Employment and Production Incentive tax credits and would have extended the credits' sunset date by three years. This legislation was vetoed by the governor.

Impact: Tobacco Commission

Item 30 F of the 2010 Appropriation Act directed JLARC to evaluate the performance of the Tobacco Indemnification and Community Revitalization (TICR) Commission. TICR was created by the General Assembly to use a portion of the state's tobacco settlement funding for revitalizing Virginia's tobacco region. The study assessed the effectiveness of TICR grants in achieving the revitalization goal, opportunities to improve the revitalization strategy, outcome and accountability measurement of projects receiving funding, and TICR Commission governance.

The report found that investments in broadband infrastructure, workforce training and education, and Tobacco Region Opportunity Fund incentives have benefited the tobacco region's economy but have not revitalized the region. TICR does not consistently follow a strategy for achieving economic revitalization and has funded numerous projects with limited potential for significant economic impact. The review also found that TICR lacks sufficient outcome metrics and accountability measures to assess the performance of each grant and the contributions of the grant program to broader economic revitalization goals. Moreover, the TICR Commission was too large, and statute did not require that its members have expertise in economic development or related areas.

►*Action by the 2015 General Assembly*

The General Assembly acted upon a number of the recommendations from the 2010 report through SB 1440 (Ruff). The legislation requires TICR to develop a strategic plan at least biennially with specific priorities, measurable goals, and quantifiable outcomes. Further, the legislation imposes project accountability by requiring each grant applicant to provide quantifiable outcome expectations, the time frame to achieve them, the method of calculating these expectations, and their link to economic revitalization and the strategic plan. Each grant applicant must demonstrate how a project will address low employment, low per capita income, or other workforce indicators, and that it is consistent with the strategic plan and financially feasible and viable.

SB 1440 reduces the size of the TICR Commission from 31 to 28 and requires that 13 of the Commission members have experience in business, economic development, banking, finance, or education.

JLARC Staff Recruitment

Recruitment to fill three analyst vacancies was conducted in early 2015. The agency received 211 applications to fill three analyst positions. Applications were screened by the recruitment coordinator and reviewed by the leadership team. Eleven finalists were interviewed, and three were offered positions. All three accepted and will join the staff by June of this year.

JLARC Reports Briefed in 2014

Low Performing Schools in Urban High Poverty Communities
Size and Impact of Federal Spending in Virginia
Semi-Annual VRS Investment Report No. 42
Biennial VA529 College Savings Plan Status Report No.1
Virginia's Information Technology Governance Structure
Local Government and School Division Consolidation
Support Costs and Staffing at Virginia's Higher Education Institutions
Addressing the Cost of Public Higher Education in Virginia
Review of State Spending: 2014 Update
VRS Biennial Status Report and Semi-Annual Investment Report
Virginia's Line of Duty Act
Virginia's Workforce Development Programs
State Spending on the K-12 Standards of Quality: FY 2014

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